

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

North Shore Gas Company	)	
	)	ICC Docket No. 11-0280
Proposed General Increase in Natural Gas Rates.	)	
	)	consolidated with
The Peoples Gas Light and Coke Company	)	
	)	ICC Docket No. 11-0281
Proposed General Increase in Natural Gas Rates.	)	

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**DIRECT TESTIMONY OF  
VINCENT A. PARISI**

General Counsel, Interstate Gas Supply of Illinois, Inc.

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On behalf of Interstate Gas Supply of Illinois, Inc.

**June 15, 2011**

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**I.**

**INTRODUCTION AND OVERVIEW**

**Q. Please state your name and business address, and tell us on whose behalf you are testifying.**

A. I am Vincent Parisi, General Counsel and Regulatory Affairs Officer for Interstate Gas Supply of Illinois, Inc., a wholly owned subsidiary of Interstate Gas Supply, Inc. ("IGS"), an independent company licensed to supply natural gas and electricity to customers in the State of Illinois. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016. I am testifying on behalf of IGS.

**Q. Please summarize your educational history and relevant business experience.**

A. I received my Bachelors degree from The Ohio State University in Economics in 1997. I received my Juris Doctorate, magna cum laude, from Capital University Law School, Columbus, Ohio, in 2000 and completed my LLM in Business and Tax from Capital University in 2001. I am a member of the Ohio Bar and the Federal District Court for the Southern District of Ohio. Since 1999, I have been

17 working on energy-related matters, first at the law firm Chester Willcox & Saxbe.  
18 While in private practice, I also focused on federal bankruptcy work for  
19 businesses, with an emphasis on bankruptcy proceedings, which included both  
20 debtor and creditors work. In 2003, I accepted the position of General Counsel  
21 and Credit Officer for IGS. In 2005, my title was revised to recognize my role as  
22 Regulatory Affairs Officer. Part of my role within the company is to oversee the  
23 Credit, Collection and Risk department at IGS.

24  
25 **Q. Is IGS an active participant in the competitive energy markets in Illinois and**  
26 **other states?**

27 A. Yes. IGS is a licensed Alternative Retail Gas Supplier and is an active participant  
28 in the Illinois competitive natural gas market, providing service to residential and  
29 commercial customers in northern Illinois. IGS has been actively engaged in  
30 serving the Illinois natural gas market for almost ten years. Interstate Gas Supply,  
31 Inc., the parent company of IGS of Illinois, recently became a licensed Illinois  
32 Alternative Retail Electric Supplier (*see* ICC Docket No. 11-0178) and intends to  
33 become an active participant in the Illinois competitive electricity market. IGS  
34 currently serves customers in the service territories of Nicor Gas (“Nicor”) as well  
35 as in the service territories of the Peoples Gas Light and Coke Company  
36 (“Peoples”) and North Shore Gas Company (“North Shore”). I will occasionally  
37 refer to Peoples and North Shore collectively as “the utilities.” In addition to  
38 Illinois, where IGS serves customers in the Nicor and Peoples/North Shore  
39 services territories in gas and ComEd in electric, IGS is an active participant in

competitive natural gas markets in eight other states and in a total of seventeen public utility service areas. As such, IGS has a strong interest in the continued fair and consistent development of an efficient and robust competitive energy marketplace in Illinois.

**Q. Have you presented testimony before this Commission previously?**

A. Yes. I testified on behalf of a coalition of natural gas suppliers known as the Retail Gas Suppliers in the proceeding to revise Part 280 of the Commission's Rules (ICC Docket No. 06-0703). I also filed written testimony on behalf of IGS and the Retail Energy Supply Association ("RESA") in the Commission's proceeding to review the proposed merger of Nicor Gas and AGL Resources, Inc. (ICC Docket No. 11-0046).

**Q. What is the purpose of your testimony?**

A. My testimony discusses regulatory mechanisms necessary to create and sustain a level competitive market, so that Alternative Retail Gas Suppliers ("ARGSS") can compete effectively with each other and the utilities to serve natural gas customers. Fair and efficient rules encourage robust natural gas competition, resulting in more competitive products and lower natural gas prices for Illinois customers. The Commission consistently has supported and promoted fair and effective competition in the Illinois natural gas market. The Commission itself has noted that it has "consistently advocate[d] the position that competitive forces, where viable, best protect consumers' interests." (Annual Report on the

Development of Natural Gas Markets in Illinois, July 2007, at 5, available at <http://www.icc.illinois.gov/reports/Results.aspx?t=4>.) Accordingly, the Commission has determined that “Small volume transportation programs for small commercial and residential customers are an important component of the Illinois retail natural gas markets.” (*Id.* at 6.) Thus, the Commission has opposed actions that would have an “incrementally adverse impact on supply competition” as “inconsistent with our policy of expanding customer choice.” (ICC Docket Nos. 07-0241/-0242 (cons.), Final Order dated February 5, 2008 at 304.)

To that end, this testimony highlights two critically important items for improving the competitive balance in the utilities’ service territories.

**Q. What are the two specific items that you will discuss?**

A. The Commission should focus on two fundamental flaws in the current design of the utilities’ competitive markets that hinder the development of customer choice: (1) the lack of a purchase of receivables (“POR”) program for residential customers; and (2) the failure of the utilities to carry over cost causation principles to certain costs recovered through base rates from their Choices For You customers, while citing such principals to support the Administrative Charge assigned only to Choices For You customers.

Specifically:

- **Peoples and North Shore should implement a residential purchase of receivables program that would require the utilities to purchase the residential account receivables of certified ARGs.** A POR program is consistent with, and complementary to, the Peoples/North Shore’s proposal to recover their sales customer uncollectible expense costs through an uncollectible expense adjustment rider (“Rider UEA-GC”). Further, implementation of a POR program would eliminate a major anti-competitive

advantage currently held by utilities, and would result in more efficient and effective natural gas markets. Finally, it would mitigate the need to further examine the base rate charges for items like labor associated with managing and collecting accounts receivable that without POR creates an inequity in the market.

- **Peoples and North Shore should stop charging Choices For You customers for costs that they do not cause if the basis for the Choices For You administrative costs is to align costs with causers, or alternatively simply spread the administrative costs among all customers who have the option to participate in the Choices For You program, mitigating the need to further examine such base rate costs.**

- Currently, Peoples and North Shore charge Choices For You customers for administrative costs related to recovery of bad debt, and appear to charge Choices For You customers for certain costs related to supply. However, ARGS customers tend to have extremely low bad debt rate as a result of no POR and the allocation of payment methodology that favors utility charges over supplier charges, and should not be penalized for other customers' failure to pay.

- Charging Choices For You customers for the utilities' supply-related charges is completely inappropriate because those Choices For You customers specifically do not obtain supply of natural gas from the utilities and do not gain any benefit from costs incurred by the utilities in connection with utility supply.

- Finally, Peoples and North Shore currently charge administrative costs related to the Choices For You program to only Choices For You customers (through charges directed to the customers' ARGS), despite the fact that all ratepayers benefit from choice and competition. Accordingly, those Choices For You program costs should be spread across all customers who have the option to switch suppliers through the Choices For You program.

122 **II.**

123 **A POR PROGRAM FOR PEOPLES AND NORTH**  
 124 **SHORE SERVICE TERRITORIES WOULD PROVIDE**  
 125 **SUBSTANTIAL CONSUMER BENEFITS AT NO COST TO THE UTILITIES**

126 **A. Background**

127 **Q. What is an account receivable?**

128 A. An account receivable is an accounting entry that tracks the money a customer  
 129 owes the provider of a good or service in the time between when the customer  
 130 consumes the good or service and when the customer pays. For instance, a typical  
 131 natural gas customer consumes natural gas, and then the customer has a period of  
 132 time to pay for that consumption after the gas is consumed -- although gas must  
 133 be provided every day, there is a lag until the meter is read, the customer is billed,  
 134 and the customer pays the bill. Between the time the customer consumes the gas  
 135 and pays for the gas, an accounting “receivable” is created to represent the  
 136 amount of money that the customer owes the supplier for the gas consumed. In  
 137 accounting terms, a receivable is considered an asset because it entitles the  
 138 receivable’s owner to future payment from the customer. In a typical billing  
 139 cycle, there can be as many as 31 days from when the first molecules of gas are  
 140 delivered by the supplier to the system and redelivered by the utilities to the  
 141 customers before the billing cycle is closed, and as many as three additional days  
 142 before the meter is read for that billing cycle. Because the utilities and suppliers  
 143 rely upon the meter readings to know how much gas to bill the customers (taking  
 144 out of the equation estimated readings), once read the consumption information is  
 145 transferred to the supplier to calculate the bill and deliver that information to the  
 146 utility to be added to the bill as a customer charge. Under the Commission rules,

147 a typical residential customer will then have 21 days to pay his or her bill in full  
148 to be considered current, and the utility applies the payments pursuant to the  
149 payment application rules prescribed by the Commission. So, from the delivery  
150 and consumption of the first molecules of gas until the payment due date, as many  
151 as 55 days can transpire (during which time natural gas continues to flow, is  
152 consumed by the customer, converted from a commodity to an “unbilled”  
153 receivable and ultimately to a billed receivable).

154

155 **Q. What is a purchase of receivables program?**

156 A. A purchase of receivables or “POR” program establishes a mechanism for a utility  
157 -- such as Peoples and North Shore -- to purchase customer receivables from a  
158 competitive supplier of natural gas. In this scenario, the gas utility typically pays  
159 the ARGS for all of its receivables, usually minus a discount which will be  
160 described later, once the ARGS delivers the natural gas into the utility system and  
161 the billing cycle is closed and an account receivable generated. In the purest  
162 programs, the utility becomes the owner of the receivable owed by the customer,  
163 so would apply all the same rules and processes to that receivable as it would for  
164 receivables owed to it by sales customers.

165

166 **Q. What happens in the event a customer does not pay for the amount owed on**  
167 **a receivable account?**

168 A. The utility purchases the receivables without recourse against the ARGS, meaning  
169 the utility takes on all rights and obligations to collect on the account. In a typical

program, the receivable is purchased under an agreement between the utility and the ARGS which will make it clear that the receivable, usually from the time the gas is delivered to the customer and consumed forward, is transferred to the utility free and clear of any claims, liens or encumbrances and the full title and ownership of the receivable moves to the utility, in exchange back to the supplier for a payable to the ARGS. In a typical program, the payable owed back to the ARGS would be at a slightly discounted rate. With the agreement in place and the receivable generated, the utility has the obligation to pay the ARGS for the receivable minus any discount, and the utility can manage the receivable according to its customary practices as the owner of the receivable.

**Q. Can you explain the concept of a discount rate on a purchased receivable account?**

A. Yes. Before the advent of transportation programs, utilities often would recover uncollectible costs through base rates. With choice programs, a number of cost allocation methods needed to be reviewed (including how uncollectibles were recovered) so as not to disadvantage choice customers in favor of non-choice customers. In many instances, the uncollectibles were removed from base rates and recovered through gas cost commodity rates, or partially through the purchased gas adjustment (“PGA”) mechanism and base rates (splitting distribution related charges from commodity related charges), or even through a rider mechanism. As choice programs developed, POR also became a part of most programs, and in an attempt to ensure that all customers were paying for the

uncollectibles on an equitable basis, in many instances the utility would calculate a system-wide uncollectible rate, and would recover the costs from sales customers through the PGA charges and from choice customers from the ARGs through a comparable discount to the receivable. When this methodology is employed, the typical system discount rate would be under 2%, varying for the most part annually based upon actual system experience. In instances where a uncollectible cost tracker was available, all customers in a rate class to which the rider was applicable simply paid the rider charge, with no discount to the receivable.

**Q. What types of customers usually are included in a POR program?**

A. Typically, a POR program includes residential and small commercial customers. These are customers for whom it might otherwise be very expensive for a non-utility affiliated ARGs to provide billing and collections service.

**B. All Ratepayers Would Benefit  
From A Well-Functioning POR Program**

**Q. Please explain why a POR program is important for ratepayers.**

A. All ratepayers can benefit from a well-functioning POR program. Utilities already have systems, paid for by all customers through base rates and monthly customer charges, including IT, labor and other systems in place to manage all aspects of the order to cash process. They also have in place all of the consumer protection protocols related to collecting on owed receivables. All of this has to be duplicated by the ARGs, and each ARGs has to develop its own systems and

217 employ its own labor to engage in the same activities. Because Choices For You  
218 customers already pay for all of these systems and labor, to also pay for it through  
219 their commodity rate from an ARGS creates inefficiencies and inequities. The  
220 inequities can be addressed through either further unbundling the costs associated  
221 with all of these functions, or providing a credit to Choices For You customers.  
222 However, given the existing systems and tools available to the utility that are  
223 simply not available to the ARGS (such as the ability to disconnect for non-  
224 payment) the efficiencies lost without a POR program are more difficult to  
225 overcome.

226  
227 **Q. How does the payment system work under the current Illinois regulatory**  
228 **scheme?**

229 A. Under the current system in the Illinois natural gas regulatory scheme, Peoples  
230 and North Shore bill ARGS customers and ARGS customers then make payments  
231 to the utilities, which the utilities later remit to the ARGS assuming enough is  
232 remitted to pay first for the utility charges, then for the ARGS charges. The  
233 ARGS gets involved in collections with respect to ARGS customers when  
234 commodity delinquency occurs, which can create confusion for consumers; two  
235 distinct entities will be pursuing recovery of charges -- the utility and the ARGS.  
236 Thus, under the current system, Peoples and North Shore are a “point of contact”  
237 with customers relating to delinquent payment issues -- and the ARGS is a  
238 different point of contact, each independently pursuing its own charges. With

239 POR, a single point of contact is created, making for clearer and more consistent  
240 information transfer to consumers.

241

242 **Q. How would POR fit within the current system that Peoples and North Shore**  
243 **have in place?**

244 A. POR is the next logical step to enable Peoples and North Shore to take full control  
245 of the billing and collections process. This step would streamline the collections  
246 process in a manner that would lessen potential customer confusion regarding  
247 billing issues, since a customer would always have only one billing point of  
248 contact (i.e., the utility), even if the customer is delinquent in paying for an  
249 ARGs's supply of natural gas.

250 Importantly, POR would not lead to additional costs for the utilities or ratepayers;  
251 to the contrary, it would make the competitive market more efficient, enabling the  
252 ARGs to then pass savings on to customers through lower prices. With POR,  
253 ARGs offers are available to all customers instead of just those that consistently  
254 pay their bills on time. POR also would free ARGs from the job of collections  
255 and allow ARGs to focus on what they do best: supply natural gas to customers.  
256 Again, the likely result is a more efficient competitive market, resulting in lower  
257 price options for customers and options for customers that today would not  
258 otherwise be available.

259

260 **Q. How would POR affect the competitive market for residential customers?**

261 A. A POR program would level the playing field so that ARGSS can effectively  
262 compete against Peoples and North Shore to supply natural gas to customers.  
263 Utilities have inherent advantages when it comes to collecting outstanding  
264 accounts from customers. Without the leveling effects of a POR program, it is  
265 more difficult for ARGSS to compete with the utility, and ultimately fewer  
266 ARGSS will enter into the market because it is not cost effective to do so. This  
267 result would be directly contrary to long-standing Commission policy that favors  
268 the development of the competitive market.

269

270 **Q. Do other utilities have POR programs?**

271 A. Yes. In fact, Illinois is unique from a natural gas competition standpoint in that it  
272 significantly lags behind all other states that have developed programs available  
273 for residential and small commercial customers in not having POR as part of the  
274 program. As a competitive natural gas supplier in nine states, I am aware of  
275 programs in virtually all other service territories, both electric and natural gas.  
276 For example, all of the following choice programs offer POR in natural gas:  
277 (Michigan: Michcon and Consumers); Ohio (Dominion East Ohio; Columbia Gas  
278 of Ohio, Duke Energy Ohio, Vectren Energy Delivery Ohio); Kentucky  
279 (Columbia Gas of Kentucky); Indiana (NIPSCO, which now includes Kokomo  
280 and NIFFL); Pennsylvania (Columbia Gas of Pennsylvania, Peoples, National  
281 Fuel PA); New York (ConEd, National Fuel NY, National Grid, Orange &  
282 Rockland; Central Hudson, Keyspan; Rochester Gas); Maryland (Baltimore Gas

& Electric, Washington Gas & Light); Virginia (Columbia Gas of Virginia). In each instance, the addition of POR expanded the participation in the program by competitive suppliers like IGS, and in each instance following development of POR, migration rates increased.

**Q. Do ratepayers currently pay the cost of uncollectible expense?**

A. Yes. Peoples and North Shore ratepayers currently pay the cost of uncollectible expense through base rates. However, Choices For You customers receive a partial credit, designed to make up for the fact that they do not contribute to a utility's uncollectible expense related to commodity costs.

**Q. Why are Choices For You customers not contributing to the utilities' uncollectible expense?**

A. As discussed above, because there is no POR program currently, that means that when a customer switches to an ARGS, the commodity receivable responsibility, and the cost associated with that responsibility, migrates with the customer away from the utility to the ARGS that serves the customer. However, the credit is not a one-for-one credit, although the amount that an ARGS customer contributes while an ARGS customer to the utilities' bad debt is likely nothing or very little. Since the payment application process currently in place pays all of the utility aged receivables before paying any of the ARGS receivables, either aged or current, it is unlikely that an ARGS customer is going to have any aged receivables that become uncollectible while they are with the ARGS. Because the

ARGS are responsible for the bad debt, it is important to closely manage the receivables and as soon as the payment due date passes begin the process for returning the customer to the utility. Although the ARGS may wind up not getting paid for several billing cycles before it is able to return the customer to the utility commodity service, if the customer is being returned to the utility it means the customer has not been disconnected for non-payment of the utility charges, so the utility is likely whole as all payments being received are being applied to utility past due charges (if any). Thus, no bad debt related to the utility charges is being created, yet ARGS customers are only being credited for a portion of the bad debt base rate charge.

**Q. Does the Choices For You customer credit fully compensate choice customers for the reduced bad debt expense as a result of migrating?**

A. No. The utilities' existing infrastructure used for collections has been funded by customers through base rates. While the Choices For You customer credit compensates choice customers for the some of the bad debt expense avoided due to customer migration from the utilities to ARGSs, this credit does not compensate Choices For You customers for the fact that they (and their ARGS) are unable to utilize the collections infrastructure that choice customers have funded through base rates. The customer credit should be higher in order to correct this inequity – without a raise in the customer credit, Choices For You customers continue to pay for utility assets from which those customers get no benefit.

329

330 **Q. Do you support Peoples and North Shore's Rider UEA-GC proposal?**

331 A. Yes, however without POR the rider should not be applied to Choices For You  
332 customers. The recovery of uncollectible expense through the uncollectible  
333 expense Rider UEA-GC is appropriate, but it should go further. Rider UEA-GC  
334 will shift the cost of sales uncollectible accounts, so that only sales customers pay  
335 this cost. However, as part of the POR program, Rider UEA-GC also could be  
336 applied to Choices For You customers. With POR and all uncollectible costs  
337 being transferred to customers through the UEA-GC rider, all customers would  
338 benefit from a single bad debt rate and a single point of contact for dealing with  
339 receivables -- the utility. Additionally, Choices For You customers would again  
340 be able to access all of the systems associated with managing the receivables and  
341 collections process and, all customers would have a single point applying all of  
342 the customer protection protocols related to recovery of receivables,  
343 disconnections and reconnections. Finally, and all customers would have the  
344 benefit of a more vibrant and available competitive market.

345

346 **Q. Can you provide more detail about the specific benefits of a POR program?**

347 A. There are many specific consumer benefits to implementing a POR program,  
348 including:

- 349 • **Reduced customer confusion regarding collections.** POR allows one  
350 company (the utility) to provide a consolidated bill for supply and delivery  
351 charges and follow through with the customer on all collections issues  
352 associated with that bill, thus reducing customer confusion. There would no  
353 longer be a potentially confusing switch from the utility billing to the ARGS  
354 attempting to collect. Further, POR avoids: the potential complications of

- 355 proration where misapplications of payments occur; problematic  
 356 synchronization of receivable balances between the utility and supplier; and  
 357 the potential of inconsistent information being provided to consumers.
- 358 • **Reduced overall costs, through leveraging existing systems.** With POR,  
 359 the utility leverages already-existing infrastructure to manage receivables,  
 360 including: IT, HR, Accounting, Call Center, Telephonic, Collections, and  
 361 Field Systems to handle the receivable throughout the lifecycle. Without  
 362 POR, ARGs must duplicate these systems, increasing overall costs.
  - 363 • **Continuity of message and consistency in treatment of receivables.** When  
 364 the utility owns the receivable, each customer is subject to the same rules,  
 365 efforts, and processes. This allows for the same protections for all customers,  
 366 and continuity and consistency in collections efforts, without duplication or  
 367 conflicting messages.
  - 368 • **Reduction of overall uncollectible expenses.** Without POR, ARGs have to  
 369 focus on enrolling only the most creditworthy individuals, which concentrates  
 370 the best paying customers with ARGs, leaving the more credit challenged  
 371 customers with the utility. This disadvantages the slower paying customers  
 372 who have a higher incidence of not pay their bills, eliminating or greatly  
 373 reducing their access to the competitive market and the products only offered  
 374 on the competitive market (such as fixed bill or guaranteed savings products).  
 375 With POR, these concerns are greatly mitigated and higher credit risk  
 376 customers gain much greater access to the competitive market.
  - 377 • **Efficient utilization of effective recovery tools.** Utilities have tools  
 378 available to them to ensure most consumers that can pay for their natural gas  
 379 do pay for their natural gas, the most effective of which is the ability to  
 380 ultimately disconnect service for non-payment and require payment of past  
 381 due amounts and/or security deposits to allow reconnection to occur.  
 382 Suppliers do not have this tool available to them.
  - 383 • **Equitable application of uncollectible expense mechanisms.** Utilities  
 384 typically are permitted to charge all uncollectibles to ratepayers, so a utility  
 385 would have a mechanism that would keep it whole on its uncollected  
 386 receivables. By maintaining these receivables within the utility system, all  
 387 ratepayers would be responsible for an equitable proportion of that expense,  
 388 without shifting that burden to any subset of customers.
  - 389 • **Diminished counterparty risk.** One of the risks that ARGs currently must  
 390 factor into their pricing is the risk that their counterparties will not be in a  
 391 position to pay their bills. Counterparty risk is greatly diminished through a  
 392 POR program. Since utilities are regulated entities that have a regulated  
 393 return on capital, they are financially stable entities. The regulated nature of a  
 394 utility not only ensures it will recover costs associated with doing business,  
 395 but also will experience a consistent rate of return through economic cycles of

growth and contraction. With POR, where the counterparty is a regulated utility, with an approved rate of return, an ARGs's counterparty risk is virtually zero. Again, this is not just a benefit to ARGs – it creates the conditions for a more vibrant competitive market that will provide benefits to customers.

**Q. You say that ARGs will pass on their cost and risk reduction by lowering customer prices. How can you be sure of this?**

A. In a more competitive natural gas market, ARGs will have to reduce prices if they wish to remain competitive with other suppliers or the utility standard service offer price. Currently in Illinois, many ARGs are not offering products because their costs are too high to be profitable. For example, although IGS serves customers in both the Peoples/North Shore service territory and in Nicor, IGS has discontinued a multi-year program of offering a discounted rate off the utility rate because of the limited market available to it without POR. In Peoples/North Shore, IGS makes no offers to residential customers and will likely not make offers until and unless POR is achieved. Because of the costs associated with marketing to, acquiring and maintaining customer relationships, with all the inequities that exist in the market without POR (or further unbundling of the related costs), IGS will focus its efforts in other markets. With POR, both Peoples/North Shore and Nicor become very attractive markets. With a POR program, ARGs will be able to enter the market offering a lower price to customers. As more ARGs enter the market, the existing ARGs will have to lower their prices and create new, innovative products in response to customer needs if they wish to be competitive. Downward price pressure is good for customers. Based upon over a decade of experience in competitive energy

markets, it is clear that this is the way that markets work. In New York and Pennsylvania, after Commission announcements that encouraged the utilities to implement POR programs and POR programs were implemented, many new suppliers entered those markets and migration has trended upwards.

**C. A POR Program Is Important For Maintaining  
Competitive Balance Between Utilities And ARGs**

**Q. You mentioned that utilities have an advantage when it comes to customer collections. Can you explain this?**

A. Certainly. Not only do utilities have pre-existing organizational infrastructure, paid for by ratepayers, designed to deal with collections from customers within their service territories; they also have various tools and programs at their disposal, created as a result of policy decisions of the state, that are specifically designed to facilitate collections from customers within their service territories. In particular, utilities such as Peoples and North Shore are better suited for collections because they have been greater recourse than ARGs in the event a customer does not pay a bill. Most prominently, the utility can shut off a customer's gas supply for non-payment, whereas an ARGs cannot take this step. The only practical recourse an ARGs has is to stop supplying gas to the customer and turn the account back to the utility. However, that action provides little or no incentive for a delinquent customer to actually pay the ARGs's outstanding receivable; in this scenario, the delinquent customer will continue to have gas delivered to his or her home by the utility and can essentially disregard the delinquent account with the ARGs at no risk of losing natural gas service. To be

clear, as a general matter, IGS is not in favor of customers losing natural gas service. However, the reality of the business of providing natural gas service requires a fair characterization of how the market works, including collections mechanisms. Within that context, it is important to recognize that an important tool in motivating customers to pay bills is the possibility that ultimately natural gas service could be terminated for non-payment – a utility has that tool at its disposal, while an ARGs does not.

**Q. Are there other reasons why it is easier for utilities to collect from customers?**

A. Yes. Utilities such as Peoples and North Shore already have existing collections infrastructure, funded through rates that are paid by sales, transportation, and Choices For You customers. This infrastructure includes components such as a call center, IT, accounting software, and employees that are dedicated to collecting delinquent accounts. ARGs do not have the benefit of preexisting collections infrastructure funded by all utility ratepayers. Rather, an ARGs currently must fund its own collections activities, even though an ARGs's choice customers are already paying for the collection activities of the utility.

**Q. Is the rate of collection increased when the same party that bills customers collects on the outstanding accounts?**

A. Yes. Under the current system without POR, utilities bill ARGs customers, and the ARGs customers pay the utility, which later remits the payment to the ARGs.

However, after a customer account becomes past due, the utility relinquishes all collections responsibility and it becomes the ARGs's responsibility to collect on the past due accounts. It is more difficult for ARGs to collect on these accounts because the customer is not accustomed to receiving a bill from the ARGs. Thus, in addition to a delinquent account, there is an additional possibility for customer confusion. Because of the disconnect between the sender of the first bill (the utility) and subsequent collections efforts, the customer is less likely to view the ARGs as a party that the customer must pay, and therefore the customer is less likely to pay. This is likely reinforced if the customer calls the utility call center and asks what it needs to pay to continue service, and is told that only the distribution charges need to be paid to avoid service disconnection. In my experience, in every utility service territory where customers can avoid a service shut-off by paying distribution charges only, a group of customers will become aware of this aspect of the system and "game" the system by switching suppliers to avoid paying commodity costs and paying only the distribution costs to maintain service.

**Q. Ultimately, what is the effect of the utilities' inherent advantage associated with collections?**

A. Because the utilities have inherent collections advantages, utilities have much more success at collecting from customers that can pay but for whatever reason choose to slow pay their bill, and thus utilities recover a greater percentage of their accounts receivable. In addition, because an ARGs will not typically be

able to differentiate between a slow payer and a non-payer, in light of the risk associated with continuing to serve the customer while trying to discern such practices, in the absence of POR, an ARGS will only serve the customers over time that pay their bills on time every time. Since the utility can continue to serve and continue to reinforce payments, it can better determine which customers are slow payers and problem payers from the non-payers and better focus its efforts on the appropriate customers. Simultaneously, a utility's cost of collection is less than cost of collection for an ARGS. Taken together, this means that an ARGS's bad debt expense (i.e., the amount on unpaid accounts receivable plus cost of collections) will be greater than a utility's bad debt expense if the ARGS is to serve anyone but the best paying customers, all other aspects being equal, to the detriment of consumers.

**Q. How would a POR program help ARGSs offer more competitive prices?**

A. The short answer is that a POR program brings an ARGS's bad debt expense more into line with that of a utility and allows the ARGS to offer its products to a much wider base of customers, without focus on which customers pay timely, which pay slowly, and which do not pay at all. Since the costs associated with locating, soliciting, acquiring, and maintaining a customer are significant, the wider the base of customers that are eligible for the products, the lower such costs are because of a higher take rate. This allows the ARGS to be more aggressive with lower pricing, because acquisition costs decrease as a higher percentage of customers take the offers. While a POR program does not increase a utility's

costs or diminish the utility's ability to recover costs, it significantly reduces an ARGs's costs. Reduced costs make it easier for an ARGs to offer competitive prices to a wider base of customers.

**D. POR Does Not Affect Utilities' Ability to Fully Recover Costs**

**Q. Why would a utility assume the additional risk and cost of purchasing ARGs's receivables?**

A. Utilities are willing to assume the responsibility of purchasing alternative suppliers' receivables when the utilities know that it will receive 100% recovery of an ARGs's receivables. With a POR program, a utility typically recovers these costs through either a discount rate applied to the purchase of ARGs's receivables, or an uncollectible expense rider, or a combination of the two. For example, my understanding is that the Commission approved a blended discount rate coupled with a true-up mechanism through the preexisting uncollectable rider that is intended to fully compensate Ameren's electric utility for any uncollectable expense. (See ICC Docket Nos. 08-0619 to -621 (cons.), Final Order dated August 19, 2009 at 6.)

**Q. Can you explain how a utility recovers its costs through a discount rate applied to receivables purchased from ARGs's?**

A. Yes. Generally, under the discount rate method of recovery, a utility is compensated for assuming the risk of unpaid accounts and collection expense by a discount paid for the receivables.

538

539 **Q. Please provide an example of how the discount rate method would be**  
540 **applied.**

541 A. Assume that the utility is directed to use a 2% discount rate. If the utility  
542 purchases \$1,000,000 of receivables at a 2% discount rate. The utility will pay  
543 the ARGS \$980,000 for the right to receive payment from the customers, but the  
544 utility is owed \$1,000,000 from those customers. Therefore, even if all customers  
545 do not pay their accounts, and it costs additional money to collect, the utility still  
546 recovers its cost for purchasing the receivables.

547

548 **Q. Can you explain how a utility recovers the cost of bad debt expense through**  
549 **an uncollectible expense rider?**

550 A. Yes. Generally, utilities are entitled to recover all the costs associated with  
551 uncollectible expenses. Peoples and North Shore currently propose to recover  
552 these cost through Rider UEA-GC, or, alternatively, through administrative  
553 charges for Rate 1 and 2 customers. (See Peoples Ex. 12.0 at 15:317-326, 20:449-  
554 21:460; North Shore Ex. 12.0 at 13:278-287, 18:400-410.) With an uncollectible  
555 expense rider such as the one that Peoples and North Shore propose in this case,  
556 customers are charged on each bill on a percentage basis that correlates with their  
557 pro rata share of the total uncollectible expense. The uncollectible expense rider  
558 is then periodically reset to true-up any over- or under-recovery of bad debt  
559 expense. (See, e.g., Peoples Ex. 12.0 at 15:320-323; North Shore Ex. 12.0 at  
560 13:279-283.)

561

562 **Q. Please provide an example of how the uncollectibles expense rider method**  
563 **would be applied.**

564 A. Rider UEA-GC applies to utility sales customers. Suppose a utility provides  
565 \$1,000,000 in supply over the course of a year, split evenly over 1,000 customers.  
566 Once again, suppose that the utility has a 2% uncollectable factor (*i.e.* 2% of its  
567 receivables are uncollectable). When the utility bills the sales customers, the bill  
568 will include an additional 2% charge (totaling \$20 per year for each customer).  
569 Collectively -- and before all other bill items -- those sales customers pay  
570 \$1,020,000. Note that, just as in the POR scenario, the utility collects \$20,000 on  
571 \$1,000,000 in receivables, recovering its uncollectable costs.

572

573 **Q. How could a POR program for Peoples and North Shore be complemented**  
574 **by the existence of an uncollectible expense rider?**

575 A. If a POR program were implemented for Peoples and North Shore, Rider UEA-  
576 GC would be relevant to setting the POR discount rate, and would apply to setting  
577 the uncollectibles charge for sales customers, thus enabling an easy and already  
578 proposed mechanism for the utilities to recover the uncollectible expense of  
579 ARGSS' customers (through the discount rate) on the same terms as from sales  
580 customers. Again, the bottom line here is that a POR program does not mean that  
581 a utility has any risk of loss -- on the contrary, the utility will recover all costs,  
582 including all costs associated with uncollectibles that might result from ARGSS'  
583 receivables.

584

585 **Q. Will a POR program be an additional cost to Peoples or North Shore?**

586 A. No. Currently, the utilities recover the cost of their uncollectable accounts in their  
587 base rates. Rider UEA-GC simply would shift this recovery from base rates to a  
588 direct pass through to customers -- but nothing would change the fact that Peoples  
589 and North Shore would continue to recover all of their costs. If the utilities or the  
590 Commission do not wish to allow recovery of an ARGSS' bad debt expense  
591 through Rider UEA-GC, a discount rate could be applied to the purchase of an  
592 ARGSS's receivables. The method of recovery for bad debt expense varies from  
593 jurisdiction to jurisdiction, and it would be reasonable to recover such expense  
594 through either Rider UEA-GC or a discount rate, or a combination of the two.  
595 Regardless of the method of cost recovery, the commonality amongst POR  
596 programs is that the utility remains revenue neutral.

597

598 **Q. In sum, are you saying that a POR program will not be an additional cost to**  
599 **the utilities or ratepayers, but rather a POR program will ultimately result in**  
600 **lower prices and a wider array of competitive products customers?**

601 A. Yes. A POR program will not cost Peoples or North Shore anything, because the  
602 utilities will be able to recover 100% of their respective costs related to  
603 uncollectible accounts through Rider UEA-GC or through the discount rate the  
604 utilities would pay for ARGSS' receivables. Customers will not pay additional  
605 costs because bad debt expense is already being paid for by customers in the  
606 respective base rates of Peoples and North Shore. However, a POR program will

enable more ARGSS to participate in the market with a wider variety of competitive products to offer to a wider base of customers, making the market more competitive for all customers. Ultimately this makes the natural gas market in Illinois more competitive.

**E.     POR Programs In Other States  
And Those Implemented By Electric  
Utilities In Illinois Provide Instructive  
Examples For Developing A POR Program  
For Peoples And North Shore Service Territories**

**Q.     Are there any utilities in other states that have POR programs?**

A.     Yes.   As stated previously, many utilities throughout the country have successfully implemented POR programs. POR is part of customer choice programs in at least nine (9) other states.

**Q.     Do electric utilities offer POR programs as well?**

A.     Yes.   Electric utilities in Indiana, New York, New Jersey, Pennsylvania, Ohio, Virginia, Maryland, and Michigan offer POR programs as well. More recently, the Illinois legislature required that electric utilities in the state to implement POR. Ameren Illinois Utilities currently has a POR tariff on the electric side, which the Commission approved in ICC Docket Nos. 08-0619 to -621 (cons.). Commonwealth Edison Company is still working through some of the details of its POR tariff in ICC Docket No. 10-0138, which I understand is currently pending on rehearing.

633 **Q. What has been the effect of POR programs on competitive markets in other**  
 634 **states?**

635 A. Utility POR programs have increased competition in a number of states.  
 636 According to the United State Energy Information Administration statistics, all  
 637 the states that have a greater than 10% customer participation in customer choice  
 638 programs have utilities that offer some form of POR program. These states are  
 639 Michigan, New York, Ohio, Maryland, Wyoming and Nebraska.<sup>1</sup> In 2009, there  
 640 was no state with over 50% of its residential customers eligible for choice and  
 641 without a utility POR program that had greater than 10% customer choice  
 642 participation.<sup>2</sup>

643

644 **Q. Why have states without POR programs been unable to achieve a significant**  
 645 **level of participation in their customer choice programs?**

646 A. States without POR programs have not seen significant migrations because  
 647 ARGSS' bad debt expenses in those states greatly increases the cost for ARGSS to  
 648 serve customers. Because it costs more to serve customers, it is more difficult for  
 649 ARGSS to offer competitive pricing to all customers, and without offers being  
 650 more widely available, customers do not switch to ARGSS. Without a POR  
 651 program ARGSS must limit their customer offers only to the most credit worthy  
 652 customers, further limiting the customer pool ARGSS market to high-credit

---

<sup>1</sup> In Georgia the natural gas utilities have completely exited that natural gas supply function and the ARGSS purchase the distribution receivables from the utility. Because the unique natural of Georgia's Choice program I do not include it in my analysis.

<sup>2</sup> Information on state by state participation in Choice programs can be found on the EIA website at: [http://www.eia.doe.gov/oil\\_gas/natural\\_gas/restructure/restructure.html](http://www.eia.doe.gov/oil_gas/natural_gas/restructure/restructure.html)

653 customers and increasing the costs because those customers are not identifiable  
 654 without credit reviews.

655

656 **Q. Do you think the implementation of a POR program in Illinois will have a**  
 657 **positive effect on offers being made in this state?**

658 A. Yes. The evidence is overwhelming that POR contributes to increased customer  
 659 access to the benefits of and participation in the competitive market. The  
 660 implementation of POR would be a significant step towards achieving a  
 661 competitive and robust natural gas market in Illinois.

662

663 **F. The Lack Of A POR Program Makes**  
 664 **Accurate Allocation To Choice Customers Vitrally**  
 665 **Important To A Properly Functioning Competitive Market**

666 **Q. Please explain how the lack of a POR program impacts the design of a**  
 667 **competitive market.**

668 A. POR is a comprehensive solution to imbalances in the competitive supply  
 669 marketplace that harm development of competition. Failure to adopt a POR  
 670 program magnifies the importance of designing the other competitive market  
 671 components appropriately; it is particularly important that costs be properly  
 672 allocated in accordance with cost-causation principles.

673

674 **Q. Are there steps that the Commission should take in the absence of a well-**  
 675 **designed POR program?**

676 A. To be clear, Peoples and North Shore should implement a properly designed POR  
 677 program, so that consumers and all other stakeholders can reap the benefits

described above. Nevertheless, in the absence of POR, there are other steps that the Commission should take to provide a less comprehensive, but nonetheless significant and positive, impact upon the development of competition. The most important of these steps is to ensure that costs are properly allocated between supply and delivery, and between (in the parlance of the utilities) sales and transportation customers. (*See, e.g.*, North Shore Ex. 12.0 at 12:268-13:278 (noting different uncollectable costs between sales and transportation customers).) To that end, the Commission should closely scrutinize the utilities' administrative fees to ensure that they appropriately reflect cost causation principles.

**Q. What, if any, effect can a utility have on the competitive market?**

A. Utility support for the competitive market is a large factor in determining the success of the competitive market. In particular, the workshop process directed by the Commission in its Final Order in Peoples and North Shore's 2009 Rate Case (ICC Docket Nos. 09-0166/-0167 (cons.)) led to tangible improvement to the competitive environment. (*See, e.g.*, Peoples Response to Data Request IGS 2.04 (identifying results of workshop process); North Shore Response to Data Request IGS 2.04 (same) (both attached as IGS Ex. 1.1).) It is critically important to the development of a successful competitive market that the utility commit to supporting the competitive supply market.

The best step the utility can take to promote the development of the competitive market is to implement a properly designed POR program. However, solutions of a more limited scope -- including the improvements made as a result of the

workshop process -- can have a positive impact. In this case, to the extent that Peoples and North Shore do not implement a properly designed POR program, the Commission should intensely evaluate the utilities' supply-related costs and make adjustments to properly allocate those costs.

### III.

#### **PEOPLES AND NORTH SHORE SHOULD CHARGE ADMINISTRATIVE CHARGES IN A WAY THAT REFLECTS COST CAUSATION AND THE FLOW OF BENEFITS**

**Q. What are administrative charges?**

A. Administrative charges are charges collected from all customers on a particular Rate or Rider associated with costs that the utility incurs in providing services pursuant to the Rate or Rider. Administrative charges are fixed charges that are charged to an entire class, and are referred to by Peoples and North Shore as "monthly customer charges" for Choices For You eligible customer classes, Rates 1 and 2. (*See, e.g.,* Peoples Ex. 12.0 at 12:265-13:273; North Shore Ex. 12.0 at 11:228-13:237.)

**Q. Do Peoples and North Shore charge administrative charges?**

A. Yes, both Peoples and North Shore impose administrative charges. This testimony focuses on the administrative charges that the utilities charge (1) to Choices for You customers, and (2) to all residential customers, regardless of whether the customer is taking service from an ARGIS.

725           A.     **Choices For You Customer Charges Should**  
 726                   **Be Recovered From All Customers Who Have The**  
 727                   **Option To Participate In The Choices For You Program**

728    **Q.     Are Peoples and North Shore proposing to recover administrative charges**  
 729           **for their Choices for You programs?**

730    A.     Yes. Peoples and North Shore are seeking to collect \$396,694.33 and \$30,878.15,  
 731           respectively. (See Peoples Ex. 15.1; North Shore Ex. 15.1.)

732

733    **Q.     From which ratepayers do Peoples and North Shore propose to recover the**  
 734           **administrative charges related to Choices For You?**

735    A.     The utilities propose to impose administrative charges related to Choices For You  
 736           administration solely upon customers in the Choices For You program, through a  
 737           charge directed at ARGSSs.

738

739    **Q.     Is that approach appropriate?**

740    A.     No. The costs for the Choices For You program should be recovered from all  
 741           customers who have the option to participate in the Choices For You program.  
 742           That is, because the program provides an option to all customers in Rate Class 1  
 743           and 2, all of those customers should financially support the program.

744

745    **Q.     Has this issue been raised in previous proceedings?**

746    A.     Yes. The Retail Gas Suppliers (“RGS”), of which IGS was a member, raised this  
 747           issue in the 2009 Peoples/North Shore Rate Case (ICC Docket Nos. 09-0166/-  
 748           0167).

749

750 **Q. Did the Commission rule on this issue?**

751 A. The Commission made a strong statement endorsing the Nicor Gas choice  
752 program as the appropriate model for modifications that were necessary to the  
753 Peoples/North Shore Choices For You program. (*See* ICC Docket No. 09-0166/-  
754 0167 (cons.) Final Order dated January 21, 2010 at 253.) The Commission  
755 specifically recognized the “compelling evidence” that was provided by the Retail  
756 Gas Suppliers that showed that the Peoples/North Shore Choices For You  
757 program was not functioning well. (*See id.*) Because the Commission sent the  
758 Choices For You issues to a workshop process, the Commission determined that  
759 “at this point” it would permit the utilities to continue their practice of recovering  
760 Administrative Charges from Choices For You customers (through their  
761 suppliers) rather than from all customers who have the option to participate in the  
762 Choices For You program. (*Id.* at 260.)  
763 That is not to suggest that the Commission thought that the proposal to recover  
764 administrative charges from all customers who have the option to choose was  
765 inappropriate. On the contrary, in the Nicor Gas 2008 Rate Case, the Commission  
766 had approved recovery of administrative charges from Nicor Gas’s choice  
767 program from *all* customers. (*See* ICC Docket No. 08-0363, Final Order dated  
768 March 25, 2009 at 128.) The outcome in the Nicor case arose in the context of an  
769 MOU between Nicor and certain parties wherein that method of cost recovery was  
770 recommended. The Commission fully endorsed that outcome.  
771 Thus, the Commission’s skepticism about the Peoples/North Shore approach,  
772 combined with the endorsement by ARGs, the utility and the Commission in the

Nicor Gas proceeding of an approach that recovers administrative charges from all eligible customers, is strong evidence that the utilities should revise the way that they impose administrative charges.

Unfortunately, this issue was not resolved during the workshop process that the Commission initiated in its Final Order in the last Peoples/North Shore Rate Case. Although the Commission's Final Order left little doubt that the Commission viewed the Nicor customer choice program as the appropriate model for a residential choice program and that the Nicor approach should be used as the model for achieving results at the workshops, Peoples/North Shore kicked this issue to the current rate case. Accordingly, the issue should be addressed in this case.

**Q. Why do you recommend that administrative charges related to the Choices For You program should be recovered from all customers who have the option to choose?**

A. All customers with the option to participate on the Choices For You program are being provided with something of value as a result of the utilities implementing a customer choice program – they are given the option to change suppliers and to take advantage of price and product offers from the competitive market. As RGS explained in the 2009 Peoples/North Shore Rate Case, competition benefits all ratepayers, regardless of whether the individual ratepayer chooses a competitive supplier or remains on the utility option. In addition, if and when a particular customer does decide to choose, an additional cost barrier (in essence, a switching

796 fee) is removed. As RGS witness James L. Crist pointed out in the 2009  
 797 Peoples/North Shore Rate Case, the effect of spreading Choices For You-related  
 798 fees to all eligible customers would be that:

799 the playing field will be leveled, allowing for accurate and fair  
 800 price signals so that customers can make informed choices in a  
 801 competitive market that is equitable to all suppliers.

802 (ICC Docket No. 09-0166/-0167 (cons.), RGS Ex. 1.0 at 22:489-491.)

803 Furthermore, as Mr. Crist pointed out, there are virtually no incremental  
 804 administrative costs caused by Choices For You customers: “Remarkably, with  
 805 the exception of the Rider SBO customers . . . the Companies would have to do  
 806 most all the billing tasks to render a monthly bill to the customer anyhow.” (ICC  
 807 Docket No. 09-0166/-0167 (cons.), RGS Ex. 1.0 at 21:469-473.)

808

809 **Q. Have Peoples and North Shore made similar arguments in the past about**  
 810 **spreading costs to all parties that are eligible to take advantage of a service?**

811 A. Yes. Peoples and North Shore have made this exact same “collective benefits”  
 812 argument, and persuaded the Commission to spread costs of energy efficiency  
 813 over all customers:

814 Staff considers the [Energy Efficiency Program] unfair, the  
 815 Utilities note, because not everyone will necessarily participate.  
 816 [citation omitted]. In the Utilities view, however, this is a rather  
 817 small argument. Many things work this way, including almost  
 818 everything paid for by taxes. Taxes pay for roads that many  
 819 citizens will never drive on, and fire fighters that most people,  
 820 thankfully, may never call. Does this make taxes —unfair? Surely  
 821 Staff would not take the argument quite that far. Given all the  
 822 positive effects of a well-designed energy efficiency program, the  
 823 Utilities argue, it should not be considered so unfair as to be not  
 824 worth undertaking as long as the benefits are equally available to  
 825 all customers.

826 (ICC Dockets 07-0241/-0242 (cons.), Final Order dated February 5, 2008 Order at  
827 163-4.) The Commission agreed with the utilities' position. (*Id.* at 182.)

828 In addition, Peoples/North Shore witness Grace discussed application of the same  
829 principle in Peoples and North Shore's last Rate Case:

830 Q. But it's appropriate for the Choices For You customers and the  
831 sales customers to pay the same charge for the Company offering  
832 its Call Center?

833 A. And they do.

834

835 Q. I'm sorry, so that's a yes?

836 A. Yes, they do.

837

838 Q. And that's appropriate?

839 A. Yes.

840

841 Q. And why is it appropriate for that cost to be spread out over all  
842 customers?

843 A. Because the Call [C]enter services all customers.

844

845 Q. All customers are eligible to call the Call Center?

846 A. And all suppliers are eligible to call Gas Transportation services  
847 and the costs are allocated among suppliers.

848

849 Q. And because all customers are eligible to call the Call Center,  
850 it's consistent with the cost causation principles that all customers  
851 be charged for the Call Center, right?

852 A. Yes.

853 (ICC Docket No. 09-0166/-0167 (cons.), Tr. at 246:4-247:4.) Clearly, Peoples  
854 and North Shore agree with the concept that when a service benefits all customers  
855 -- even if all customers do not take advantage of the service -- that the costs  
856 should be socialized over all customers that could use the service.

857

858 **B. Choices For You Customers Should**  
 859 **Not Be Billed For Administrative Costs They**  
 860 **Do Not Cause Related To Bad Debt, Collection**  
 861 **Costs, And Other Services Provided To Other Customers**

862 **Q. Are there administrative charges that Peoples and North Shore propose to**  
 863 **collect from all residential customers?**

864 A. Yes. In addition to the administrative charge that the utilities seek to impose on  
 865 Choices For You customers, both Peoples and North Shore propose to impose a  
 866 general administrative charge on all residential customers.

867

868 **Q. Should Peoples and North Shore be able to impose the proposed general**  
 869 **administrative charge on all residential customers?**

870 A. No. To the extent that the costs that Peoples and North Shore seek to recover  
 871 through the general administrative charges are not caused by Choices For You  
 872 customers, those customers should not pay those charges. In other words, the  
 873 utilities should not be allowed to recover from Choices For You customers the  
 874 costs related to services that Choices For You customers do not receive.

875

876 **Q. Can you provide an example of costs that are recovered through the general**  
 877 **administrative charge that are not caused by Choices For You customers?**

878 A. Yes. Peoples Gas and North Shore both appear to propose to collect each utility's  
 879 Uncollectable Account costs through their general administrative charges. (See  
 880 Peoples Ex. 12.0 at 14:308-314, North Shore Ex. 12.0 at 12:268-274.) As Peoples  
 881 and North Shore correctly point out with regard to Rate 1 customers, none of

882 uncollectable costs related to commodity costs are caused by Choices For You  
 883 customers. (*See* Peoples Ex. 12.0 at 14:313-15:317; North Shore Ex. 12.0 at  
 884 13:273-278.) As a result, Peoples and North Shore provide Rate 1 Choices For  
 885 You customers with a credit against these costs. (*See* Peoples Ex. 12.0 at 14:308-  
 886 314, North Shore Ex. 12.0 at 12:268-274.) Peoples and North Shore provide a  
 887 similar explanation for Rate 2 customers as well. (*See* Peoples Ex. 12.0 at  
 888 20:449-21:457; North Shore Ex. 12.0 at 18:400-407.)

889

890 **Q. Is approval of Rider UEA-GC enough to resolve this issue?**

891 A. It is a good start, so long as Choices For You customers are not required to pay  
 892 the charge, but it still is not as good of a solution as POR. Both Peoples and  
 893 North Shore state that if Rider UEA-GC is approved, no uncollectable expense  
 894 will be recovered through the administrative charge. (*See, e.g.,* Peoples Ex. 12.0  
 895 at 15:317-326; Peoples Ex. 12.5 (comparing charges with and without Rider  
 896 UEA-GC); North Shore Ex. 12.0 at 13:278-287; North Shore Ex. 12.5 (comparing  
 897 charges with and without Rider UEA-GC).) As discussed earlier, Rider UEA-GC  
 898 appears to be an appropriate mechanism to address a subset of the uncollectable  
 899 cost allocation issues because it seems to provide an equitable approach to  
 900 Uncollectable Account recovery, as opposed to recovery through fixed charges.  
 901 Nevertheless, a POR program would be a superior solution, because it allows an  
 902 ARGS to avoid creating (and passing along the costs of) a parallel billing system.

903

904 **Q. Are there any costs that Peoples and North Shore seek to recover through**  
905 **administrative charges that are not caused by Choices For You customers?**

906 A. Yes, there appear to be costs that the utilities seek to recover through general  
907 administrative charges that are not caused by Choices For You customers. For  
908 example, Choices For You customers cause only a *de minimis* portion of the  
909 utilities' costs related to *any* uncollectable expenses, but these costs all would be  
910 recovered through the administrative charge, as stated previously in my  
911 testimony. Because Choices For You customers cause virtually no uncollectable  
912 expenses of any kind while a Choices For You customer, they do not cause costs  
913 incurred in support of attempted collection of uncollectable expenses beyond  
914 normal billing expenses. Those costs include the capital, direct O&M, and  
915 indirect O&M costs associated with any collections beyond sending the initial  
916 bill. Neither Peoples nor North Shore described a credit to Choices For You  
917 customers for these costs, so it appears that both utilities improperly charge  
918 Choices For You customers for these costs.

919 In addition, it appears that there are a number of functions performed in support  
920 of Peoples and North Shore's Customer Information system that would not be  
921 used by CFY customers. (*See* Peoples' Response to Data Request IGS 2.21;  
922 North Shore's Response NS IGS 2.21 (both attached in IGS Ex. 1.1).) For  
923 example, "assessing customer credit ratings", "collection performance  
924 monitoring", "conduct positive ID", and "interface with collection agencies" are a  
925 few of the functions that clearly are not applicable to CFY customers -- either  
926 because the customer chooses (credit ratings, ID) or because CFY customers

927 cause virtually no uncollectibles. (*See* Peoples' Response to Data Request IGS  
 928 2.21 Attachment 1 (listing customer information system functions); North Shore's  
 929 Response to Data Request IGS 2.21 Attachment 1 (same) (both attached in IGS  
 930 Ex. 1.1).)

931 Finally, because the ARGS are responsible for providing the commodity service,  
 932 any of the labor or costs associated with the PGA charge (including any of the  
 933 labor costs for the people pricing the PGA charge) purchasing the natural gas  
 934 commodity, purchasing any hedges, moving the gas, etc., should not be paid for  
 935 by the Choices For You customers. A review of Peoples and North Shore's  
 936 respective Responses to Data Request IGS 2.22 Attachment 1 (listing functions  
 937 performed by employees of the utilities assigned to Choices For You) shows that  
 938 the functions identified in support of Choices For You customers are in many  
 939 instances similar to functions performed by the utilities for PGA customers.

940

941 **Q. What is the basis for your opinion that Choices For You customers cause**  
 942 **virtually no uncollectable expenses or costs incurred in attempts to collect**  
 943 **uncollectable expenses?**

944 A. Under the utilities' current competitive market structure, ARGSs carefully  
 945 manage their customer enrollment, so that the ARGSs themselves face very low  
 946 bad debt expenses. This necessarily means that utilities face even lower  
 947 uncollectable expenses for those customers, because under current payment  
 948 priorities, partial payments from a Choices For You customer go to satisfy utility  
 949 charges first. Thus, in order for an ARGs to collect even a single penny from a

950 customer, the utility already must be fully compensated. Thus, because Choices  
951 For You customers are already low credit risks to begin with, and utilities  
952 necessarily are “first in line” for payments, the utilities incur trivial uncollectable  
953 expenses of any kind related to Choices For You customers.

954

955 **Q. How does that impact costs associated with attempts to collect uncollectable**  
956 **expenses?**

957 A. If Peoples and North Shore are paid in full in virtually every instance by Choices  
958 For You customers, there is no need to incur expenses related to collecting  
959 uncollected expenses. Peoples and North Shore simply do not have to take  
960 additional collections-related steps to recover utility costs from those customers.  
961 As a result, it is inaccurate to say that Choices For You customers cause those  
962 collections-related costs. Because Choices For You customers are not cost  
963 causers, here -- just as Peoples and North Shore properly observe for  
964 uncollectable expenses related to commodity -- Choices For You customers  
965 should get a credit for the portion of those costs rolled into their administrative  
966 charges.

967

968 **Q. Earlier in your testimony, when discussing the benefits of POR, you**  
969 **described in detail the advantages that a utility has in collection of delinquent**  
970 **bills over an ARGS. If ARGS customers have low uncollectibles, why is POR**  
971 **necessary?**

972 A. This highlights the fundamental need for POR as a long-term solution. The  
973 current “rules of the game” require ARGS to be extremely careful about taking on  
974 credit risks. Thus, many customers that would otherwise be eligible for Choices  
975 For You their bills will not be looked at as favorable customers because of the  
976 customers’ payment history. This restricts the universe of customers an ARGS  
977 will be willing to take on, depriving a sizable segment of the mass market from  
978 the opportunity to take advantage of competitive market offers from an ARGS.  
979 So, although there are issues with administrative charge allocations under the  
980 current rules that need to be fixed in the absence of a POR program, a POR  
981 program would allow a broader swath of the mass market to experience the  
982 benefits of competition. If the Commission wants to promote the development of  
983 a competitive market that benefits all customers, the single most important step it  
984 can take is to direct the utilities to implement a POR program.

985

986 **Q. If the utilities decided to implement a POR program, would the utilities need**  
987 **to reduce administrative charges for Choices For You customers to reflect**  
988 **the virtually non-existent non-payment risk?**

989 A. No. The inability of ARGSS to provide service to higher credit-risk customers is  
990 caused directly by the lack of a POR program. A POR program would alleviate

991 the ARGSS' inclination to take on only customers with low credit risk,  
 992 eliminating the need to further reduce the general administrative charges. As a  
 993 side benefit, the best paying customers identified by the ARGSS would once again  
 994 be part of the overall receivables portfolio of the utility, likely having a positive  
 995 effect on the overall bad debt rate.

996

997 **Q. Are there any other costs that Peoples or North Shore include in general**  
 998 **administrative charges that should not be charged to Choices For You**  
 999 **customers?**

1000 A. Yes. Peoples and North Shore have identified certain functions that it provides in  
 1001 support of the Choices For You program. (*See Peoples Response to Data Request*  
 1002 *IGS 2.22; North Shore Response to Data Request IGS 2.22 (both attached in IGS*  
 1003 *Ex. 1.1.) I do not dispute that these are appropriate functions in support of*  
 1004 *Choices For You; however, based on the utilities' responses to Data Request IGS*  
 1005 *2.21, there appears to be significant overlap of certain functions between the*  
 1006 *Choices For You administrative charge and the customer support function*  
 1007 *recovered through general administrative charges. (Compare Peoples Response*  
 1008 *to Data Request IGS 2.22 with Peoples Response to IGS Data Request 2.21;*  
 1009 *Compare North Shore Response to Data Request IGS 2.22 with North Shore*  
 1010 *Response to Data Request IGS 2.21.) Those areas of overlap include:*

- 1011 • Billing and receivables support
- 1012 • Temperature forecasting
- 1013 • LIHEAP

1014 Although recovery of these costs once is appropriate, Choices For You customers  
1015 should not have to pay twice for the same or substantially similar services.

1016

1017 **Q. How should this double payment be addressed?**

1018 A. Just as Peoples and North Shore properly addressed the allocation of the  
1019 Uncollectable Account by providing a credit to Choices For You customers, it  
1020 should also provide a credit against the Choices For You customer's (non-Choices  
1021 For You) administrative fee. The value of this credit should include all costs,  
1022 including capital, direct O&M, and indirect O&M related to the duplicated or  
1023 substantially similar functions.

1024

1025 **Q. Can you place a dollar value on this credit?**

1026 A. Not at this time. I anticipate that the total costs related to these duplicated  
1027 services will emerge in discovery.

1028

1029 **Q. Are there any further costs that Peoples or North Shore include in general  
1030 administrative charges that should not be charged to Choices For You  
1031 customers?**

1032 A. Possibly. Although neither Peoples nor North Shore appear to charge Choices  
1033 For You customers for the direct price of commodity, it is not clear what costs, if  
1034 any, that Peoples or North Shore attempt to pass through to Choices For You  
1035 customers related to support for purchase of commodity through the general (non-  
1036 Choices For You) administrative charge. Such costs would include the personnel

responsible for procurement, hedging, or supply customer calls. Even with a POR program, the Commission should ensure that none of the utilities' supply-related costs are charged customers who do not take supply service from the utilities, or simply eliminate the separate administrative charge for Choices For You customers, thus helping to level the inequity that is created by separating those charges but not looking further into the commodity procurement, pricing, and management related costs being born by Choices For You customers.

#### IV.

#### CONCLUSIONS

**Q. Please summarize the recommendations made in your Direct Testimony.**

A. In order to advance the benefits of customer choice to all customers, the Commission should direct the utilities to make two straight-forward changes:

- **A Purchase of Receivables program levels the competitive playing field and benefits all customers and stakeholders.** A well-functioning POR program benefits all parties, and leaves no party worse off. It benefits consumers because it expands access to ARGs and allows ARGs to pass through savings from not investing in billing programs. It benefits ARGs because ARGs face significantly diminished costs and risk, which they can then pass along to consumers. Finally, it does not harm utilities, because they will recover their costs and be compensated for any increased risk. Peoples and North Shore should implement a properly designed POR program to reap those benefits. However, in the absence of a POR program (as is the case in the Peoples/North Shore service territories), it is increasingly important to take less comprehensive steps to mitigate competitive imbalances, such as properly allocating administrative fees.
- **The Commission should direct Peoples and North Shore to revise their administrative charges to better reflect cost causation principles.** Regardless of whether the Commission institutes a POR program, Choices For You administrative charges should not include any costs related to supply procurement, and Choices For You administrative costs should be spread across all customers who have the option to choose. To the extent that a POR

1069                    program or Rider UEA-GC not implemented, Choices For You customers  
1070                    should receive a credit for any costs related to collections.

1071

1072    **Q.**        **Does this conclude your testimony?**

1073    **A.**        Yes.